MACKINAC CENTER
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Testimony on 2017 Michigan Income Tax Rate Reduction Proposals

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In 2007 Michigan's legislature approved a "temporary" income tax hike, from 3.9 to 4.35 percent. The rate was trimmed 0.1 percent in 2012 and made permanent.

Since 2007 this tax hike has transferred $6.3 billion additional dollars from Michigan families to Lansing.

In just the last year alone, that tax hike deprived Michigan families of $771 million they had earned.

It will take at least that much this year too, and every year until it's rolled back - or more.

What did the state do with that extra $771 million?

It's a big number but still might have been swallowed by the $1 billion in secret corporate welfare checks this state wrote to special interests last year under MEGA subsidy deals approved in 2009 – two years after higher revenue from this tax hike began rolling in,.

More income tax dollars were transferred via corporate handouts approved by Republicans. Now there are hearings on yet another $1.8 billion for a handful of big developers.

Pundits, "progressives," the League, "Bernistas" and other voices on the left express horror at the idea of a tax cut that lets families keep a bit more of what they earn. Why then are they so quiet when it comes to transferring so much of what is taken to politically favored special interests?

Isn't it the turn of regular hardworking Michigan families and small businesses to get a better deal from Lansing too?

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This state can afford it. Despite "tax cut fever" rhetoric, Lansing has hardly been on a rigorous spending diet. Annual appropriations have increased from $25.2 billion in 2011 to $31.0 billion this year. That's $5.8 billion more to spend each year, and growing.

The May 2016 revenue estimating conference projected general- and school aid fund revenue of $22.5 billion this year. The January 2017 consensus upped that to $23.3 billion next year - a $764.8 million increase.
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The question may be not whether Lansing can afford to give back, but who you will give back to.

That 2007 tax hike damaged the state in other ways: It may have contributed to 49,000 former Michigan residents having left and taken their incomes permanently to some other state. That's what the Mackinac Center's Michael LaFaive and Ball State University scholar Michael Hicks found when they looked at emigration levels associated with income tax hikes.

For every 10 percent increase in personal taxes, they found an additional 4,900 people leave this state every year. And that's even controlling for other reasons people move, like more hours of sunshine.

Finally, Michigan's big business tax and labor reforms have made it more economically competitive, but we're lagging in vital tax burden metrics.

The most recent Tax Foundation report shows Michigan at No. 25 in state tax burdens.

Perhaps more immediately painful, 31 other states celebrated their own "Tax Freedom Days" before Michigan last year. Even Indiana and *Ohio* beat us.

The economy won't expand forever, and no one wants to see another generation here watching their children have to leave the state for jobs. Michigan can't afford to *not* make itself more competitive on taxes. Especially when competing against warm states like Florida and Texas that have no income tax.

William McBride, the Tax Foundation's chief economist, summed up the consensus of many academic studies on the empirical relationship between taxes and economic growth. He wrote:

"While there are a variety of methods and data sources, the results consistently point to significant negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions, and monetary policy."

Thank you.